

NEWS RELEASE

30 per cent chance Ottawa fails to meet its fiscal goal over 10-year period; likelihood of failure jumps to 53 per cent over 20 years

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VANCOUVER— With current fiscal policies, and prior to the 2023 budget being presented, the federal government faces between a 30 per cent and 53 per cent chance of failing to meet its core fiscal goal of reducing federal debt as a share of the Canadian economy, finds a new study released today by the Fraser Institute, an independent, non-partisan Canadian public policy think-tank.

“The federal government has committed to gradually reducing federal debt as a share of the national economy over the medium term, but they have not accounted for the impact of recessions, which will make it difficult to achieve this stated goal,” commented Jake Fuss, associate director of fiscal studies at the Fraser Institute.

[*Stress Testing the Federal Fiscal Anchor*](#) finds that there is a 30 per cent chance that the federal debt to GDP ratio will *increase* over a 10-year time period, meaning the federal government would fail to achieve its core fiscal goal. The chance of federal debt increasing relative to the size of the economy increases to 53 per cent over a 20-year time horizon.

The added insight from this analysis is the addition of recessions to economic forecasts, which are excluded from government projections. The study finds, for instance, that there is a 32 per cent chance of a recession over the next 20-year period and a 28 per cent chance of two recessions. If two recessions occur, there is a 60 per cent chance that federal debt will increase as a share of the economy.

Critically, major economic downturns, such as recessions, directly impact public debt due to declines in government revenues and increases in government spending, leading to larger budget deficits.

The direct and indirect effects of a recession could set off a debt “doom loop”, with debt continuing to increase relative to the size of the economy if the government does not quickly respond by reducing its post-recession budget deficits.

“The combination of the high likelihood that Ottawa will miss its current fiscal goal coupled with the abandonment of previous fiscal goals, indicates the federal government lacks any effective fiscal rules or constraints,” Fuss said.

“It is critical policymakers evaluate how major economic downturns like a recession could affect the public debt in the future, and conclude the best way to lower budget deficits and public debt is through government spending restraint that would keep federal finances in check.”

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